Carton
Contracts

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TRADITIONAL CARTON OUTLET OBJECTIVES/STRATEGIES

OBJECTIVE:

MAINTAIN CRITICAL PRESENCE AND MERCHANDISING VEHICLES IN HIGHLY TARGETED KEY PLAYERS BASED ON RETAILER'S COMMITMENT TO THE CIGARETTE CATEGORY AND THEIR WILLINGNESS TO GROW THEIR VOLUME. (NATIONAL CIV% ESTIMATED AT 60%, REDUCED FROM 71%).

STRATEGIES:

- IMPLEMENT RDA PACKAGE TO MEET PM EXCLUSIVITY IN TARGETED OUTLET LIST WITH FULL BUNDLED MARKETING PLAN APPROACH.
- ALIGN CRITICAL RJR RESOURCES, BOTH PACK AND CARTON PLATFORMS, WITH KEY CATEGORY PLAYERS.
- RESET CONTRACT AND FIXTURE REQUIREMENTS CONGRUENT WITH RJR VOLUME AND PROFITABILITY EXPECTATIONS.
- REDUCE BUDGETS DEDICATED TO CARTON OUTLETS (I.E., RDA, FIXTURE, TPI, ETC.) IN A MANNER THAT PROTECTS RJR VOLUME / PROFITABILITY AND DEFINES FINITE LEVEL OF RJR PARTNERSHIP.
- RETAIN AVAILABILITY OF RETAIL ASSIST CONTRACTS AND/OR FIXTURE AGREEMENTS TO UTILIZE ON AN "AS-NEEDED" BASIS WHERE WE MAINTAIN FIXTURES AND PRESENCE IN CALLS LESS THAN 70 CTNS. / WK. RJR VOLUME.
- EXECUTE THE STRATEGY AND BUDGET IN THE FIELD.

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TRADITIONAL CARTON OUTLET OBJECTIVES/STRATEGIES

- ALL CARTON OUTLET PLANS HAVE BEEN TERMINATED AS OF DECEMBER 31, 1996 PER THE CUSTOMER LETTER SENT IN MID-OCTOBER.
- RJR WILL RE-SIGN CARTON OUTLET CONTRACT BASED ON REGIONAL PLANS APPROVED BY THE RSM AND AVP.
- NET NEW CARTON OUTLET CONTRACT REQUIREMENTS INCLUDE:

ALL CARTON OUTLET RETAIL MARKETING PLANS

  - ELIMINATION OF INDUSTRY VOLUME HURDLE OF 225 CARTONS PER WEEK ON ALL CARTON OUTLET PLANS.
  - ADDITION OF "LESS THAN 50% ALL COMMODITY VOLUME" IN ENTRY CRITERIA TO DEFINE PLAN SPECIFICALLY TO CARTON OUTLETS.

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TRADITIONAL CARTON OUTLET OBJECTIVES/STRATEGIES

MEETING COMPETITION CARTON OUTLET RETAIL MARKETING PLANS

- ELIGIBILITY CRITERIA STATED IN THE CONTRACT (VOLUME, ETC.) IS USED TO IDENTIFY A NARROW CATEGORY OF OUTLETS FOR WHICH WE WILL CONSIDER "MEETING COMPETITION" OFFERS. HOWEVER, JUST BECAUSE AN OUTLET MEETS THE ELIGIBILITY CRITERIA DOES NOT MEAN WE SHOULD OFFER THE ACCOUNT THIS CONTRACT. YOU MUST USE YOUR BEST BUSINESS JUDGMENT IN SELECTING THE MOST APPROPRIATE RETAILER FOR IMPLEMENTATION OF THIS CONTRACT.

- THE 1996 LEVEL 1 RETAIL MARKETING PLANS FOR CARTON OUTLETS HAVE BEEN MODIFIED AND RENAMED AS A "MEETING COMPETITION" CONTRACT FOR 1997 TO REFLECT THE WAY THE CONTRACT HAS BEEN UTILIZED.
  - ALLOWS FIELD SALES TO UTILIZE ON AN RJR TARGETED BASIS AS WE DESIRE TO "MEET, BUT NOT BEAT COMPETITION".
    - PREVIOUS "SHARE OF MARKET" REQUIREMENT HAS BEEN ELIMINATED.
    - RJR ENTRY VOLUME REQUIREMENT REMAINS AT 70 RJR CPW.
    - ALL CONTRACT PAYMENT RATES HAVE BEEN REDUCED VERSUS 1996 RATES.
- MEETING COMPETITION CONTRACTS MAY ONLY BE UTILIZED WHEN LEVEL 2 AND RETAIL ASSIST CONTRACT PRESENTATIONS HAVE BEEN REFUSED AND A COMPETITOR IS CONTRACTED IN PRIMARY POSITION. PM EXCLUSIVE ACCOUNTS ARE A PRIME EXAMPLE.
- MEETING COMPETITION CONTRACTS ARE TO BE UTILIZED TO ACQUIRE A SECONDARY PRODUCT POSITION FOR RJR AND AVOID A TOTALLY DISADVANTAGED SITUATION WHEN APPROPRIATE.
- RETAILERS THAT DO NOT QUALIFY FOR A LEVEL 2 AGREEMENT, DUE TO LOW VOLUME, CAN BE OFFERED RJR'S RETAIL ASSIST CARTON OUTLET CONTRACT TO MAINTAIN PRIMARY POSITION FOR RJR.

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TRADITIONAL CARTON OUTLET OBJECTIVES/STRATEGIES

LEVEL 2 CARTON OUTLET RETAIL MARKETING PLANS

- LEVEL 2 RETAIL MARKETING PLANS FOR CARTON OUTLETS IN 1996 HAVE BEEN MODIFIED FOR 1997 AS FOLLOWS:
  - RJR ENTRY VOLUME REQUIREMENT HAS INCREASED TO 80 RJR CPW.
  - ALL CONTRACT PAYMENT RATES HAVE BEEN REDUCED VERSUS 1996 RATES.

TOTAL NSS CARTON OUTLET RETAIL MARKETING PLANS

- ALL NSS3 RETAIL MARKETING PLANS FOR CARTON OUTLETS IN 1996 HAVE BEEN RENAMED "TOTAL NON-SELF-SERVICE" FOR 1997 FOR PROGRAM SIMPLIFICATION.

RETAIL ASSIST CONTRACTS

- RETAIL ASSIST CONTRACT WILL BE AVAILABLE IN 1997 FOR LOW VOLUME CARTON OUTLETS THAT NO LONGER QUALIFY, DUE TO VOLUME CRITERIA, FOR LEVEL 2.
- ALL RETAIL ASSIST CONTRACTS REQUIRE RSM APPROVAL PRIOR TO RETAILER COMMITMENT.
- **IT IS NOT RJR'S INTENTION TO PUSH FOR EXPANDING NET NEW RETAIL ASSIST CONTRACTS IN 1997.**

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TRADITIONAL CARTON OUTLET OBJECTIVES/STRATEGIES

RETAIL ASSIST CONTRACTS (CONT.)

- SITUATIONS WHERE RETAIL ASSIST CONTRACTS MAY BE DESIRABLE INCLUDE:
  - HIGH VISIBILITY / HIGH TRAFFIC LOCATIONS
  - RETAILER AGREES TO MAINTAIN RJR FIXTURES THAT ARE CURRENTLY ON LOCATION ON A COST SHARE BASIS, HOWEVER, NEW FIXTURES WILL NOT BE AVAILABLE FOR RETAIL ASSIST RETAILERS.

- RETAIL ASSIST CONTRACT GRID IS A VARIABLE RATE ($1 - $100 / STORE / MO.). THE MAXIMUM MONTHLY PAYMENT OF $100 PER STORE MAY NOT BE EXCEEDED. PAYMENTS THAT APPROACH THE $100 / MO. MAXIMUM SHOULD BE FOR OPTIMAL SELF-SERVICE CONDITIONS (I.E., NSS SHOULD BE SUBSTANTIALLY LESS. PAYMENT RATES OFFERED TO COMPETING CUSTOMERS IN A TRADE AREA SHOULD BE CONSISTENT.

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TRADITIONAL CARTON OUTLET OBJECTIVES/STRATEGIES

ENHANCEMENT $ USAGE

- ENHANCEMENT $ USAGE MAY BECOME NECESSARY BASED ON THE MARKETPLACE SITUATION. BOTTOMLINE, USAGE OF ENHANCEMENT $ ABOVE STANDARD CONTRACT RATES MUST BE APPROVED BY RSM USING THE SAME METHODOLOGY AS WAS APPLIED IN 1996. FIELD SALES CONTINUES TO DO AN OUTSTANDING JOB IN THE TARGETING OF ENHANCEMENT $ FOR THE BENEFIT OF RJR AND THERE IS EVERY EXPECTATION THAT THIS PERFORMANCE WILL NOT CHANGE.

- ENHANCEMENT $ USAGE, AS IN 1996, REQUIRES THOROUGH ANALYZATION PRIOR TO RETAIL COMMITMENT. AS RJR PROFITABILITY IS AFFECTED, A PROFITABILITY ANALYSIS IS NECESSARY FOR AN EDUCATED DECISION. OTHER MARKET FACTORS MUST ALSO BE CONSIDERED, AS IS DONE IN OUR CURRENT PRACTICES, AS THE DECISION IS NOT INTENDED TO BE BASED SOLELY ON FINANCIAL CONSIDERATIONS.

- ENHANCEMENT $ RANGE FOR 1997 WILL BE EXPANDED TO $1 - $300 VARIABLE PAYMENT. THE DECISION TO EXPAND THE ENHANCEMENT RANGE FROM THE CURRENT $1 - $200 IS BASED ON THE FACTS THAT OUR STANDARD RATES ARE SUBSTANTIALLY REDUCED VS. 1996 AND FIELD SALES HAS DEMONSTRATED THEIR HIGH LEVEL OF COMPETENCY IN MANAGING THIS APPROACH.

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TRADITIONAL CARTON OUTLET OBJECTIVES/STRATEGIES

ENHANCEMENT $ USAGE (CONT.)

- **ENHANCEMENT $ USAGE GUIDELINES FOR 1997 ARE AS FOLLOWS:**

  - **ENHANCEMENT $ MAY BE UTILIZED IN TANDEM WITH THE NEW MEETING COMPETITION (PREVIOUSLY LEVEL 1) CONTRACT AT A LOWER LEVEL. THIS SCENARIO MAY BE NECESSARY IN MARKETS WHERE RJR SOM IS UNDER DEVELOPED VERSUS B&W AND/OR LORILLARD TO SECURE RJR'S SECONDARY POSITION IN CARTON OUTLETS. THE EXPECTATION IS THAT THIS WILL BE THE EXCEPTION VERSUS THE RULE. TOTAL RJR PAYMENT SHOULD NOT EXCEED THE HIGHEST COMPETITOR OFFER.**

  - **ENHANCEMENT $ MAY ALSO BE UTILIZED IN TANDEM WITH LEVEL 2 CONTRACTS ONLY IN OUTLETS IN WHICH RJR VOLUME MEETS OR EXCEEDS 100 CPW (CARTONS PER WEEK). RETAILERS THAT FALL WITHIN THE 80 - 99 RJR VOLUME RANGE WILL QUALIFY FOR STANDARD RATES ONLY. ANY EXCEPTIONS TO THIS GUIDELINE MUST BE APPROVED BY THE AVP. TOTAL RJR PAYMENT SHOULD NOT EXCEED THE HIGHEST COMPETITOR OFFER.**

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TRADITIONAL CARTON OUTLET OBJECTIVES/STRATEGIES

STORE FORMAT CONSIDERATIONS

- 1997 RETAIL MARKETING PLANS FOR TRADITIONAL CARTON OUTLETS WERE DEFINED AND WRITTEN TO SUPPORT THE MAJORITY OF FIELD SALES NEEDS IN CONTRACTING THESE OUTLETS.

- AS TRADE SEGMENTS BEGIN TO "BLUR" IN 1997 AND BEYOND, IT IS CRITICAL THAT USAGE IS DEFINED FOR EACH OF OUR RJR MARKETING PLAN CONTRACT TYPES.

- AS A SELECT FEW OF OUR TRADITIONAL CARTON OUTLET PARTNERS ARE HIGH VOLUME, HIGH VOLUME IN AND OF ITSELF IS NOT A STRONG ENOUGH CRITERIA FOR THE RETAILER TO QUALIFY FOR A CONTRACT OTHER THAN A TRADITIONAL CARTON OUTLET PLAN.

- FOR TRADITIONAL CARTON OUTLETS TO QUALIFY FOR AN RJR CIGARETTE/TOBACCO STORE CONTRACT PLAN, THE RETAILER MUST CONFIGURE THE CIGARETTE/TOBACCO DEPARTMENT IN A MANNER SIMILAR TO A CIGARETTE/TOBACCO STORE. EXAMPLES, THOUGH NOT INCLUSIVE, INCLUDE:

  - STORE-IN-A-STORE
  - "RESTRICTED ACCESS" AREA (NSS DOES NOT FIT THE "RESTRICTED ACCESS" DEFINITION)
  - PROMOTE AND DISPLAY THE CATEGORY IN A CIGARETTE/TOBACCO STORE MANNER
  - PROVIDE SELF-SERVICE ACCESS TO ALL PRODUCT AND PROMOTIONS
  - WILLINGNESS TO PROVIDE ENHANCED MERCHANDISING/PRESENCE TO CIGARETTE MANUFACTURERS

- EXCEPTIONS TO CONTRACT APPLICATION IN TRADITIONAL CARTON OUTLETS MUST BE APPROVED BY THE RSM PRIOR TO RETAILER COMMITMENT. EXCEPTIONS THAT MAY EXTEND BEYOND REGIONAL BOUNDARIES SHOULD BE APPROVED BY THE AVP.

- THIS SAME GUIDELINE APPLIES TO OTHER TRADE SEGMENTS (I.E., PACK OUTLETS) THAT MAY BE CONSIDERING FORMAT CHANGES BOTH NOW AND IN THE FUTURE.

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RJR 1997 RATE SCHEDULE

TRADITIONAL CARTON SELF-SERVICE

	IND VOL/WK RJR @ 30SOM	RJR VOL RANGE		RJR AVG VOL/WEEK	Meeting Competition $PER/MO.	PER CTN	LEVEL 2 $PER/MO.	P/CTN	RETAIL ASSIST $PER/MO	ACCRUAL L1 $0.10	L2 $0.20	L3 $0.25	L1M $0.15	L2M $0.30	L3M $0.375
RA		<70cpw							$1-$100 <80 CPW	N/A	N/A	N/A	N/A	N/A	N/A
A	248	70	79	75	$75	$0.23	N/A			N/A	N/A	N/A	N/A	N/A	N/A
B	298	80	99	90	$85	$0.22	$174	$0.45		$40	$78	$98	$60	$117	$147
C	400	100	140	120	$114	$0.22	$234	$0.45		$52	$104	$130	$78	$156	$195
D	530	141	177	159	$151	$0.22	$310	$0.45		$70	$138	$172	$105	$207	$258
E	665	178	221	200	$181	$0.21	$371	$0.43		$86	$174	$216	$129	$261	$324
F	835	222	279	251	$228	$0.21	$456	$0.42		$108	$218	$272	$162	$327	$408
G	1042	280	345	313	$259	$0.19	$541	$0.40		$136	$272	$338	$204	$408	$507

TRADITIONAL CARTON NON SELF-SERVICE

	IND VOL/WK RJR @ 30SOM	RJR VOL RANGE		RJR AVG VOL/WEEK	Meeting Competition $PER/MO.	PER CTN	LEVEL 2 $PER/MO.	P/CTN	TOTAL NSS $PER/MO.	P/CTN	ACCRUAL L1 $0.10	L2 $0.20	L3 $0.25	L1M $0.15	L2M $0.30	L3M $0.375
RA		<70cpw					$1-$100				N/A	N/A	N/A	N/A	N/A	N/A
A	248	70	79	75	$48	$0.15	N/A		N/A		N/A	N/A	N/A	N/A	N/A	N/A
B	298	80	99	90	$61	$0.16	$128	$0.33	$81	$0.21	$40	$78	$98	$60	$117	$147
C	400	100	140	120	$71	$0.14	$171	$0.33	$109	$0.21	$52	$104	$130	$78	$156	$195
D	530	141	177	159	$83	$0.12	$227	$0.33	$145	$0.21	$70	$138	$172	$105	$207	$258
E	665	178	221	200	$95	$0.11	$268	$0.31	$164	$0.19	$86	$174	$216	$129	$261	$324
F	835	222	279	251	$119	$0.11	$325	$0.30	$206	$0.19	$108	$218	$272	$162	$327	$408
G	1043	280+		313	$136	$0.10	$407	$0.30	$258	$0.19	$136	$272	$338	$204	$408	$507

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